GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:269
ANSWERED ON:07.12.2001
BANK CREDIT TO COMMERCIAL SECTOR
GANGASANDRA SIDDAPPA BASAVARAJ;NAWAL KISHORE RAI

Will the Minister of FINANCE be pleased to state:

(a) whether according to the Reserve Bank of India figures between early April and July 27, 2001, credit to the commercial sector has grown by just Rs.1,193 crore against Rs.18,550 crore in the corresponding period last year;

(b) if so, the reasons therefor and loan granted to non-agricultural sector by banks during the months of August, September and October, 2001, separately; and (

(c) the action plan prepared by the Reserve Bank of India to improve the credit flow for commercial/non-agricultural sector?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a),(b) and (c) : A Statement is laid on the Table of the House.

STATEMENT REFERRED IN REPLY TO PARTS (A), (B) AND (C) OF THE LOK SABHA STARRED QUESTION NO. 269 BY S/SHRI NAWAL KISHORE RAI AND G.S.BASAVARAJ FOR REPLY ON 7.12.2001 REGARDING BANK CREDIT TO COMMERCIAL SECTOR

(a) : As per information available with the Reserve Bank of India, non-food bank credit ofscheduled commercial banks during the year 2001-2002 upto July 27, 2001 increased by Rs. 1,715 crore compared to an increase of Rs. 14,482 crore during the corresponding period of the prevous year.

(b) : The expansion of bank credit and other flows to the commercial sector from the banking system remained sluggish due to subdued industrial growth and depressed investment demand. The non-food bank credit of scheduled commercial banks has however, increased by Rs.4,024 crore, Rs.3,913 crore and Rs.12,751 crore, respectively during months of August, September and October 2001 (on the basis of the last reporting Friday of each month).

(c) : On a review of macroeconomic and monetary developments, the Reserve Bank of India(RBI) reduced Bank Rate by 0.50 percentage point from 7.0 per cent to 6.50 per cent with effect from the close of business on October 22, 2001 as a part of monetary policy measures which are announced six monthly. Cash Reserve Ratio (CRR) was also reduced by 200 basis points to 5.50per cent from 7.50 per cent of net demand and time liabilities (NDTL). Effective from the fortnightbeginning November 3, 2001, CRR will be reduced to 5.75 per cent; and effective fortnight beginning December 29, 2001, the CRR will be reduced further to 5.50 per cent of NDTL.

It is expected that these changes will facilitate the development of a short term yield curve, develop money market, reduce the regulatory arbitrage between banks and non-banks, enhance the availability of lendable resources with the banks and improve the efficiency of indirect instruments in the conduct of monetary policy. At the present level of NDTL, the combined impact of theabove two measures will result in augmenting lendable resources of the banking system by about Rs.8,000 crore (about Rs.6,000 crore effective from November 3, 2001).